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Monika Meireles*

Post-pandemic Inflation: A Structural Reading[1]

Like today, many years ago —almost four decades to be precise— the issue of inflation was also on the order of the day. In the late 1970s and early 1980s, the world also experienced major inflation, attributed mainly to an abrupt spike in prices of fossil fuels —an episode known as the "oil shock"—, rapidly passed on to the prices of other goods, given that transport costs are difficult to absorb in the short term.

However, unlike how events unfolded in the past, in this uncertain post-pandemic world, with only limited measures and a single monetary policy instrument, the tendency of rising costs of living show few signs of ceding in the foreseeable future. In other words, although we are witnessing a clear change of course in the monetary policy central banks implement to contain inflation —following the lead of the United States Federal Reserve (FED), systematically raising its base interest rates in 2022— the general price levels are the highest since the 1990s, and nothing indicates that the tendency will change soon.[2]

On its own, this inflationary inertia would be worrisome, but it is accompanied by an uneven economic recovery following the first years of the Covid-19 pandemic, with intermittent recovery of job numbers and a discouraging wage dynamic. As a result, no small number of analysts have remarked that we are experiencing an extremely perilous period of stagnation in economic activity, which has been combined with out-of-control increases in prices. This in turn has revived a ghost from the past with an ominous-sounding name that we all thought had been laid to rest: "stagflation."

* Monika is a researcher at the Institute for Economic Research (IIEC, UNAM); you can contact her at momeireles@iiec.unam.mx.

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Obviously, the situation described exacerbates a negative feeling that was already in the air with two years of lockdowns, masking, and social distancing, in which discouragement —not uncommonly tinged with despair— at lacking assured funds to cover relentlessly accruing accounts payable has taken hold of many individuals, producing a state of constant "economic anxiety." It may seem odd for an economist to express concern regarding the mood of the population, but however much we avoid examining the specifics of the mechanisms connecting one area to the other, it is intuitive to infer that the dominant contours of social psychology at a given time affect a country's horizons of economic performance.

In this context, several concerns are pushed to the fore in public debate, among them: What is the origin of post-pandemic inflation? How can we mitigate it without sabotaging an incipient economic recovery? And, beyond monetary policy, what other instruments can the government use to counteract the loss of purchasing power among low-income earners due to rising prices?

To better understand the causes of the current inflationary surge, we must invariably delve into the various debates on the issue that are being conducted on a more theoretical plane. In economic science, at least one major watershed between schools of thought exists: orthodoxy, also known for the clear influence of neoclassical theory and as being the dominant current in the field, and heterodoxy, made up of multiple schools (Marxists, institutionalists, Keynesians, post-Keynesians, feminist economists, etc.), which have as their common undercurrent irreconcilable epistemic differences with the neoclassical paradigm. Regarding monetary issues, they diverge in their reading of what currency is, and therefore differ in how they define what causes periodic scares regarding acceleration of prices for goods and services. For orthodoxy writ large, currency is neutral —this is equivalent to saying it acts as a "veil" covering the real variables of the economy (like levels of capital, investment, and production), but without affecting them—, whereas for heterodoxy currency is one of the key factors in decisions made on the real side of the economy.

This divergence between orthodox and heterodox thought extends beyond the debate regarding the ontological nature of what we understand "currency" to mean. Heated discussion also surrounds derivative topics in the monetary field, like, precisely, the debate on what is behind the current inflationary crisis. I clarify some points of this debate mentioning that, for orthodox thinkers, inflation is the result of a combination of factors on the demand side of the economy; one example is supposed "irresponsibility" on the part of a government that has "flooded" the market with liquidity, in other words an administration that persists in "lax" increases in spending, squandering public funds, and embracing an "irresponsible" increase in issuance of currency, inflating nominal wages and artificially stimulating household consumption. On the contrary, for heterodox thinkers see the causes of acceleration of price levels on the supply side of the economy. Thus, they prefer to look for the causes of inflation in the marked asymmetries in productivity levels between certain sectors, unequal access to goods and services determined by exogenous, temporary imbalances in production, and the marked inequality of market power among various productive units, which allows large corporations to manipulate and fix the prices they charge for their products.

Also, Latin American heterodox thinking includes a reflection on inflationary processes that constructs an explanation for the region even more sophisticated than the "cost inflation" argument of heterodoxy in general. The leading exponent of this approach, Mexican economist Juan Noyola, claims that "inflation is not a monetary phenomenon; rather, it is the product of real imbalances manifested in how the general level of prices increases. This real nature of the inflationary process is far more evident in emerging economies than in industrial economies."[3] In this explanation, the focus is placed, precisely, on distinguishing between the *structural causes* of inflation (which can be grouped in a series of "rigidities" in supply and the imbalances of a typically underdeveloped productive structure) and *mechanisms of propagation* (made up of elements that disseminate an inflationary impulse that originates elsewhere, precisely in the structures of the economy).

Thus, when we contrast the two approaches we find that the factors the orthodox school infers as the causes of inflation —like increasing the money supply, raising wages above marginal productivity, and overheated demand— are seen in the heterodox perspective as only mechanisms for propagating price increases, mere “accelerators” of an inflationary impulse that originated elsewhere. However, the issue is not limited to that alone: the mechanisms of propagation, originally identified by Noyola and later analyzed in depth by the Chilean economist Osvaldo Sunkel, appear as products of political inefficiency, in answer to two latent disputes: *a*) the dispute over a greater fraction of income among different social classes, and *b*) wrangling over funding to be distributed between the public and private sectors. All this leads us to conclude that “the mechanism of propagation lies in the ability of different economic and social sectors or groups to readjust their relative real income or spending: wage earners through readjustments in wages, salaries, and other benefits; private business by raising prices; and the public sector by increasing nominal fiscal spending.”[4]

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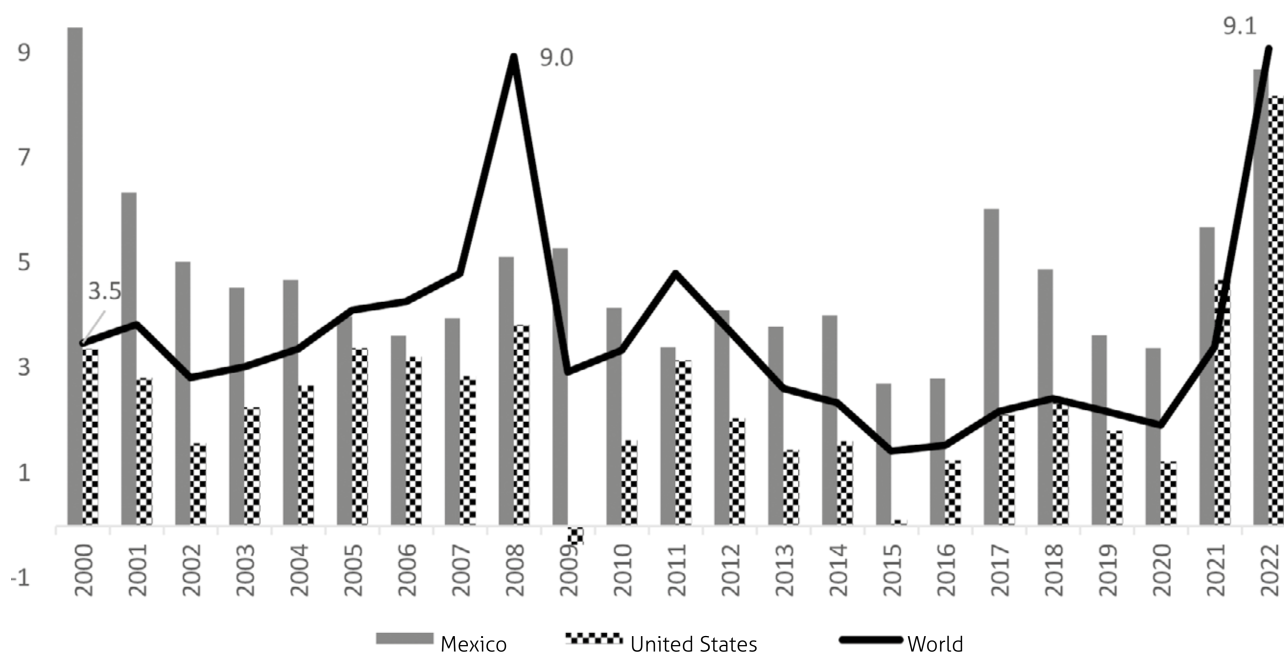
In summary, in this kind of structural reading of inflation, given the marked asymmetries of power among different social sectors, the most worrisome result of the inflationary process is the tendency toward the regressive reordering of income distribution it causes, as “stronger” actors succeed in keeping their purchasing power unaltered, while those who concentrate less power in society see their real income systematically diminished in a climate of high inflation.

After this brief overview of some of the most important economic reflections on the nature and consequences of inflationary crises in general, we can now return to the central topic that interests us here: post-pandemic infla-

Graph 1
Mexico, the United States, and the World: inflation
Annual % (2000-2022)



Source: Prepared by the author with data from the World Bank.

Unquestionably, post-pandemic inflation reveals the inextricable bond between the incessant growth of the financial benefits of big business with stagnation of wages. A far-reaching tax reform could constitute an important counterweight.

tion. As we see in Graph 1, current inflation has not only surpassed levels not seen for more than ten years but rose exponentially in 2022. In the world, for example, the 2000 inflation rate was 3.5 percent, whereas in 2022 it reached and exceeded by one-tenth of a percentage point the highest inflation seen during the 2008 North Atlantic financial crisis (9 percent). For its part, U.S. inflation had maintained percentages well below the global average through 2015, when it reported 0.1 percent, while 2020 would mark the start of its upward turn, peaking at 8.4 percent in 2022 —special attention should be given to 2009, the "year of deflation," when consumer prices in the United States reached negative values, which reflected the severity of the recession in the aftermath of the financial crisis. For Mexico in particular, we see that, in the period 2000 to 2022, annual inflation outpaced figures for the world and the United States, with an alarming spike starting in 2020, which saw it go from 3.4 to 8.7 percent in 2022.

Moreover, turning a structural eye on the most immediate causes of post-pandemic inflation, we encounter at least three core elements. The first appeared at the height of the pandemic and involved an abrupt rupture of global value chains, caused by the necessary lockdown and social distancing practices that were strictest between 2020 and 2021. In other words, the Covid-19 pandemic disrupted, with no advance warning, the entire network of international suppliers that had been intricately interconnected since the 1990s and ensured that industrial production would be delocalized and executed with components from practically all corners of the globe. The second element is much closer in time and was heralded by the Russian occupation of Ukraine, following the February 24, 2022 invasion, when we witnessed the outbreak of war in Europe with widespread repercussions, among them a significant increase in prices of energy and goods in the basic food basket, sectors in which the two nations involved in the confrontation are important global actors as two of their leading producers. However, it is the third structural cause of present-day inflation that has proved hardest to overcome: the astronomically high profit margins of large corporations, especially the massive global monopolies in the cutting-edge tech sector that, combined with their market power, operate to ensure that price increases do not cease easily.

Also, it bears noting that in the twilight of a global economy that is reorganizing in the wake of the pandemic, the surge in inflation has caused monetary authorities worldwide to resort to some of the old rules of thumb to "cool" demand in an attempt to control the rise in prices. In 2022, we saw the deployment of a macroeconomic policy playbook that uses interest rate increases, but now sprinkled with a certain flexibility in the wiggle room for fiscal policy, in the context of multiple anticyclical policies used to mitigate the negative economic effects of the pandemic. From 1980 to 2007, the developed economies experienced economic growth with inflation under control, which has been called the "Great Moderation," that was interrupted only by an international financial crisis that forced a change of course in monetary policy. Following the crisis unleashed by Covid-19, policymakers promoted a vast expansion of public spending —which was absolutely necessary and laudable— but overlooked its immediate consequences: the significant stimulation of demand and the impulse to act as inflationary fuel in a context of disarticulation of global supply.[5]

Against this backdrop, thinking of developing countries, we cannot overlook the fact that the combination of a more restrictive monetary policy —with a marked penchant for raising interest rates— with a much less robust capacity for fiscal growth than that seen in developed nations, created a perverse macroeconomic formula that has undermined any chance of more vigorous post-pandemic economic recovery. Inspired in a reflection by Juan Carlos Moreno-Brid, I do not think it unreasonable to affirm that the new macroeconomic orientation causes the two arms of economic policy —monetary and fiscal policies— to suppress economic growth and promote the loss of significant social progress achieved in the period 2002-2014.[6]

Finally, far from seeking to sow more alarmism in the already fraught terrain of possibilities for refashioning the post-pandemic global economy —but also without failing to point out the obvious—, an analysis of present-

day inflation clearly reveals two sides of the same scales. On one side, which is lower for the time being, the quality of life of a majority of the population is worsening day by day. On the other, which is higher, the profits of the major corporations remain intact, or worse yet increase even more because those organizations take advantage of their market power to keep prices high. Unquestionably, post-pandemic inflation reveals the inextricable bond between the incessant growth of the financial benefits of big business with stagnation of wages. A far-reaching tax reform could constitute an important counterweight —"a necessary but insufficient condition," as economists like to say— but the most important issue to consider would be what can be done, on the post-pandemic horizon, to revive the negotiating power of the working class. VM

Notes

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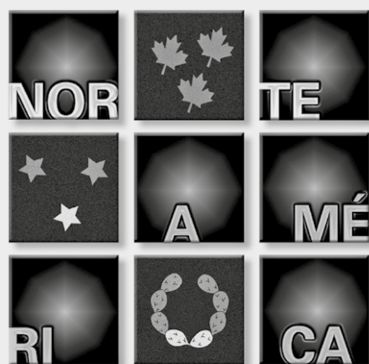
2 In fact, "Global inflation has surged to 9.8%, catching policymakers, economists, and investors by surprise. Central banks, having spent most of 2021 insisting that inflation was a post-pandemic aberration that would dissipate in a few months, have abruptly changed tack. Fully 33 of 38 central banks monitored by the Bank for International Settlements, the central bankers' central bank, have raised interest rates in 2022." "Inflation and Rising Demands on Governments are Changing Economic Policy," Special report Regime Change, *The Economist* (2022), p. 226.
3 Juan Noyola, "El desarrollo económico y la inflación en México y otros países latinoamericanos," in *Cincuenta años del pensamiento de la CEPAL: textos seleccionados* (Mexico City: Fondo de Cultura Económica / Comisión Económica para América Latina y el Cribe, 1998), p. 67.
4 Osvaldo Sunkel, "La inflación chilena: un enfoque heterodoxo," *El trimestre económico* (October-December 1958).
5 For some analysts, "The experiment went wrong, particularly in America. Inflation returned with a vengeance, and has since been worsened by an energy crisis—the response to which in Europe has been another round of government spending on a vast scale," in "Policymakers Are Likely to Jettison their 2% Inflation Targets," Special report, Regime Change, *The Economist* (2022), p. 261.
6 Mexican economist Moreno-Brid is incisive: "[In Latin America,] we have both, fiscal and monetary, aligned toward the contraction of effective demand. First of all, the vast majority of their economies have —from before and even more with the response to Covid— scant fiscal room. Few can absorb substantial additional spending for social purposes, and much less to modernize infrastructure or adapt to climate change, given the decline of their debt quotients [in relation to] GDP and the increase in global and local interest rates. Some have applied subsidies to alleviate the cost of energy and staple foods, which exerts added pressure on their finances. In this context, it is to be expected that advances in combating poverty and indigency will suffer even greater setbacks." Juan Carlos Moreno-Brid, "Comentario en el Panel 1: Cambios en la globalización y retos para la región," in the proceedings of the cepal Thirty-Ninth Period of Sessions (Buenos Aires, October 24 to 26, 2022, https://periododesesiones.cepal.org/39/sites/pses39/files/presentations/comentario_de_jc_moreno_brid_cepal_periodo_de_sesiones_buenos_aires_octubre_2022.pdf).



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